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Message Text

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15
ACTION EUR-12

INFO OCT-01 ISO-00 SAJ-01 AGR-05 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 DODE-00 PA-01 PRS-01 /088 W
---------- 064272
R 250730Z JUL 75
FM AMEMBASSY BUDAPEST
TO SECSTATE WASHDC 3791
INFO AMEMBASSY BERLIN
AMEMBASSY BUCHAREST
AMEMBASSY MOSCOW
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY WARSAW
USMISSION NATO
USMISSION EC BRUSSELS

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E.O. 11652: NA
TAGS: ECON, PINT, HU
SUBJECT: PRICE INFLATION AND DOMESTIC IDLITICS

REF: BUDAPEST 2251

1. EMBASSY CONTINUES TO RECEIVE FROM VARIOUS SOURCES INFORMATION THAT HUNGARIAN LEADERS AT HIGHEST LEVEL ARE AGONIZING OVER TIMING AND MANNER OF BOOSTING CONSUMER PRICES. QUESTION IS NOT WHETHER THER E
WILL BE LARGER INCREASES, BUT HOW TO MAKE THOSE INCREASES LESS UNPALATABLE TO MAGYAR IN STREET.

2. IN JUNE-JULY GOH HIKED PRICES OF CANNED FOODS AND SOME SERVICES AND BEGAN MODIFYING PSYCOLOGICAL CLIMATE FOR MORE OF SAME. THUS,
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BELA CSIKOS-NAGY, CHAIRMAN OF NATIONAL MATERIAL AND PRICE CONTROL

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OFFICE, CONFIDED TO USG EMPLOYEE THAT PRICES OF CLOTHING, MEAT AND GASOLINE WOULD BE INCREASED BETWEEN NOW AND JANUARY 1, 1976. SIMILARLY, FINANCE MINISTER LAJOS FALUVEGI TOLD FRENCH DIPLOMAT THAT PRICES WILL INCREASE IN TWO STAGES, IN AUGUST 1975 AND THEN AGAIN IN JANUARY 1976. HE SAID THAT THERE WILL BE 25 PERCENT INCREASE IN ENERGY COSTS, INCLUDING GASOLINE, IN AUGUST, WHILE PRICES OF SOME BASIC CONSUMER ITEMS WILL RISE 10-15 PERCENT. ACCORDING FINMIN TIGHTER IMPORT RESTRICTIONS ON LUXURY ITEMS WILL BE NECESSARY, PARTICULARLY ON THOSE FROM HARD CURRENCY COUNTRIES.

3. REAL AND PALPABLE INCREASES IN HUNGARIAN LIVING STANDARDS OVER PAST 7-8 YEARS HAVE WON FOR FIRST SECREATARY KADAR AND HIS COLLEAGUES LIMITED ADMIRATION, PRESTIGE AND EVEN A DEGREE OF BROAD PUBLIC SUPPORT WHICH THEY WANT TO MAINTAIN. LEADERSHIP IS THEREFORE HESITANT TO INSTITUTE THE UNPOPULAR POCKETBOOK MEASURES DICTATED BY INCREASINGLY DIFFICULT ECONOMIC REALITIES (SEE REFTEL). CSIKOS-NAGY HAS ALSO ADVISED FRG DIPLOMAT RECENTLY THAT ECONOMIC CONDITIONS IN THE WEST WILL AFFECT TIMING OF ANNOUCEMENT OF HUNGARIAN PRICE INCREASES. THUS, GOH WOULD PREFER TO ANNOUNCE PRICE INCREASES WHILE WESTERN CAPITALIST COUNTRIES ARE STILL IN THROES OF RECESSION AND BEFORE ECONOMIC UPSWING REALLY BECOMES APPARENT. HUNGARIAN LEADERSHIP, ACCORDING TO CSIKOS-NAGY, BELIEVES THAT ANNOUCEMENT TYING PRICE INCREASES TO WESTERN INFLATION (READ BLAMING WEST) MIGHT BE MORE ACCEPTABLE TO HUNGARIANS WHOSE PRESS AND MEDIA HAVE CONSTANTLY REMINDED THEM OF RAGING INFLATION AND MOUNTING UNEMPLOYMENT IN WEST.

4. ACCORDING FRENCH EMBASSY, HUNGARIAN ECONOMISTS FIX BLAME ON POLITICAL LEADERS WHO BY THEIR MICAWBER-LIKE REFUSAL TO TAKE REMEDIAL ACTION LAST YEAR ALLOWED MATTERS TO DRIFT INTO GRAVE ECONOMIC SITUATION WHICH HUNGARY FACES THIS YEAR. TECHNOCRATS NOW ASSERT THAT JANOS KADAR REFUSED IN 1974 TO ACCEPT THEIR ECONOMIC ANALYSES BASED ON SOLID STATISTICAL EVIDENCE BECAUSE HE WANTED TO AVOID - OR AT LEAST POSTPONE - UNPLEASANT AND UNSETTLING PUBLIC ANNOUNCEMENTS THAT WOULD DETRACT FROM SHEEN OF XI HSWP CONGRESS IN MARCH 1975 OR INJECT CONTENTIOUS ISSUE INTO PARLIAMENT ELECTIONS THAT FOLLOWED THREE MONTHS LATER.

5. COMMENT: IN MID-1975 THE PRONOUNCED DISTORTIONS IN HUNGARIAN
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ECONOMY ARE BECOMING MORE VISIBLE; AND IT IS EQUALLY APPARENT THAT NO ONE CAN WISH THESE OBJECTIVE REALITIES AWAY. SOMEONE IN AUTHORITY MUST DO SOHKTHING SOON. END COMMENT.

6. SINCE HUNGARIANS ARE ENTHUSIASTIC CONSUMERS WITH HIGHLY DEVELOPED SENSE OF ACQUISITION, THEIR REACTION TO INFLATION-BRAKING MEASURES WILL PROBABLY BE SIMILAR TO THAT OF THEIR WESTERN COUSINS: GRUMBLING ABOUT INEPTITUDE OF POLITICAL

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LEADERSHIP, SOME CONCERN ABOUT FUTURE; BUT THEY HAVE NEITHER
THE MEANS NOR THE WILL TO RESIST BELT-TIGHTENING, AND THEY WILL
DUTIFULLY LOWER WHAT HAD BEEN RISING EXPECTATIONS.
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